

14. MoD informed us that the increase of £33 million was a net rise originating from a medley of cost increases and reductions. There had been a modest increase of £8 million arising "in connection with first of class costs"; with the formation of the Defence Research Agency (DRA) Trading Fund it became necessary to finance some activities previously received "free-in-aid" which added £13 million to Trident submarine costs; some £70 million in additional costs was added to the 1993-94 estimate based upon current assumptions regarding the programme for the second batch of Trafalgar class submarines; and support costs increased by £69 million, most of which was due to higher than anticipated contract prices primarily for those items whose purchase was necessary before design finalisation in order to support the submarines at the very start of their lives.<sup>53</sup>

15. Without any associated savings, these cost increases would have added £160 million to the cost of the VANGUARD class submarine programme. They were, however, largely offset by reductions to the cost estimate amounting to some £125 million. Contingency allocated to the submarine element of the Trident programme fell by £20 million; a reduction in the estimated running costs connected with this part of the programme generated a saving of £22 million; and there was a drop of £83 million to the estimated production costs of the VANGUARD class boats, £50 million of which flowed from a general review of VSEL overheads. We note that even with savings of £125 million, the estimated cost of the submarine programme rose: and that it may continue to do so.

#### SWS: Equipment and Missiles

16. The testing of the Strategic Weapon System (SWS) equipments on board HMS VANGUARD continues to progress well. VANGUARD is scheduled to undertake her first missile test firings off the coast of Florida this summer during which two missiles are to be fired.<sup>54</sup> The testing and installation of SWS equipments in VANGUARD and VICTORIOUS is also making good progress.<sup>55</sup> After the completion of build for each submarine, there will be further missile test firings; although not held annually, overall these test firings will cover a series of "challenging profiles and ranges".<sup>56</sup> MoD's decision to use Trident in a possible sub-strategic as well as a strategic role was noted in a previous Committee Report.<sup>57</sup> The cost of this with regard to SWS equipments, in terms of "minor enhancements to the hardware and software of the UK shore-based target planning system" is minimal, at just under £1 million and thereafter £150,000 annually: a total of around £5.5 million over the 30 year life of Trident. As this forms no part of the strategic Trident programme, its costs fall elsewhere. The missiles to be used in any possible sub-strategic as well as strategic role are to be identical.<sup>58</sup> No additional costs or alterations to equipment are required, and MoD states that there will be no consequential delay to the programme as a result of this development.<sup>59</sup>

17. The missiles are purchased on a yearly basis along with the US order, on a rolling programme of continual replacement such that "at any one time they could be different ones from the ones we had two years before".<sup>60</sup> As the Committee noted last year, the total UK missile requirement remains classified for no clear reason.<sup>61</sup> MoD reiterated their insistence on the continued classification of the total requirement in the Government Reply to that Report,<sup>62</sup> as earlier it had done in a letter to the Committee.<sup>63</sup> However, MoD has made known that a total of 44 missiles have been ordered and procured in the years to September

<sup>53</sup>Evidence, p 45, A32; and Q1069

<sup>54</sup>Evidence, p 21, para 4; and Q1135

<sup>55</sup>Evidence, p 21, para 4

<sup>56</sup>Qq 1136-8

<sup>57</sup>1993 Report, para 5

<sup>58</sup>Qq 1130-2 and 1139-42

<sup>59</sup>Evidence, p 26, A6d

<sup>60</sup>Q1116

<sup>61</sup>1993 Report, para 27

<sup>62</sup>HC 917 of Session 1992-93, Annex B, para 8

<sup>63</sup>Evidence, pp 34-36



1994; three were purchased in US Fiscal Year 1990 (FY90), none in FY91, 23 in FY92, 18 in FY93, and none in FY94.<sup>64</sup> MoD also states that it plans to complete its procurement of missiles within the next four to six years, subject to —

“review in consultation with the US procurement authorities in order to ensure that UK purchases are completed in the most cost-effective manner possible”.<sup>65</sup>

18. This is the nub of the matter. As the Committee noted last year, in the event of a reduced overall US missile purchase programme, the unit cost of missiles procured by the UK rises.<sup>66</sup> At present there is a degree of pressure in the US Congress to reduce or truncate the US Navy's procurement of Trident missiles, with inevitable repercussions for UK Trident costs; as MoD said to the Committee —

“It is... true to say that were there for any reason to be a significant reprofiling of the American procurement programme, so that, for example, orders in a given year diminished, that would have a direct effect on the unit production cost of missiles purchased in that year, and if we happened to be purchasing missiles in that year, we undoubtedly would be affected”.<sup>67</sup>

MoD is in constant touch with its US counterpart in order “to contain such fluctuations” to missile costs.<sup>68</sup> Indeed, some such fluctuations have been allowed for in the latest estimate, to the tune of £80 million.<sup>69</sup> This estimate was —

“predicated... on the basis of what... [MoD]... know(s) about the purchasing programme of the United States Navy, which is different from what their intentions were 12 months ago”.<sup>70</sup>

While MoD is content with its liaison with the Americans and consequent ability to predict what cost changes will result from what procurement changes,<sup>71</sup> it cannot be content with the present uncertainty. More may become clear following the US budget in the summer; but if the Americans are to curtail their programme, then the UK programme would almost certainly be best completed in less than the four to six years suggested by MoD, as thereafter unit costs would be very much greater. To what extent this increase in costs would exceed the £80 million now contained in the missile costs estimate is uncertain. To what extent a greater increase in costs arising out of a worst case scenario in the US — perhaps immediately after the budget there in the summer — would exceed untargeted present provision and place considerable strain on the programme's unallocated contingencies is still more unclear.<sup>72</sup> **We fear that future rises may far exceed present provision, and consider that MoD must be prepared to complete its missile procurement programme as soon as possible to avoid such cost penalties.**

19. Despite the addition of £80 million to the estimated missile costs since last year to cover probable increases to the missile procurement programme, the net increase to the estimated costs as a whole for the missile programme was only some £60 million; other costs in the programme have fallen by £20 million. Estimated costs for the SWS equipment programme have fallen by £9 million.<sup>73</sup> Specified contingency within the programme as a whole has risen by £1 million to £23 million.

<sup>64</sup>Qq 1124-7; also HC 917 of Session 1992-93, Annex B, para 8

<sup>65</sup>Evidence, pp 34-36; also HC 917 of Session 1992-93, Annex B, para 8

<sup>66</sup>1993 Report, para 27; also 1992 Report, paras 37-8

<sup>67</sup>Q1153

<sup>68</sup>*ibid*

<sup>69</sup>Qq 1155-6

<sup>70</sup>Q1161

<sup>71</sup>Q1165

<sup>72</sup>Evidence, pp 45-46, A34

<sup>73</sup>Evidence, p 24, A3a; also Q1160